

**Senate Finance Committee**

**Individual Income Tax Working Group**

**Written Statement for the Record**

**April 15, 2015**

On behalf of the International Franchise Association and its members, thank you for soliciting the opinions of various stakeholders on how to accomplish tax reform benefitting individuals and both small and large businesses. Members of our organization have met with your staff on a number of occasions on this issue, and we look forward to continuing that dialogue through this process.

The IFA is the world's oldest and largest organization representing franchising worldwide, including 780,000 franchise establishments that support nearly 8.9 million direct jobs, \$890 billion of economic output for the U.S. economy, and 3 percent of the Gross Domestic Product (GDP). IFA members include large and small franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development. Our overarching goal for tax reform is to replace the current code with a system that is simpler, flatter, and fairer for all Americans. Modernizing and simplifying our outdated tax code in a comprehensive manner is crucial to franchise businesses and a necessary catalyst for more robust business investment, a stronger economy, and a growing job market.

While much of the discussion on tax reform has been focused on corporate tax rates, the vast majority of businesses (nearly five times as many) file their tax returns as either S Corps or Partnerships and are subject to individual tax rates. As a result, most small businesses are subject to income tax at the highest marginal individual rate, which increased in January 2013. This tax burden reduces the cash available to expand and grow their businesses and stifles job growth. Two-thirds of net new jobs in America are created by small businesses.

In fact, of IFA members, fifty-eight percent of franchisees and thirty-nine percent of franchisors file as pass-through entities. In all, nearly eighty percent of franchise owners file their business income on their individual tax returns because they are not organized as corporations. Across the business community, the number of individuals filing as S Corps and pass-through entities has increased over the last fifteen years while C Corp filings have fallen reinforcing the need for comprehensive tax reform. If tax reform only addresses corporate tax rates, small businesses – many of them franchised – would be at a severe disadvantage.

Reforming only the corporate tax code would leave small business owners who file individually with an outdated and overly complicated tax system. In addition, effective tax rate parity cannot be achieved if the tax rate on large corporations is reduced by nearly 30 percent, giving them a full 15 percentage point tax rate advantage over small businesses. This result would put small business at a disadvantage relative to larger entities, as well as their foreign competition. For this reason, we have significant reservations about any effort to undertake corporate-only reform without addressing the individual side of the tax code simultaneously.

A healthy U.S. economy depends on the strength of all businesses, but especially small businesses. Our current outdated tax code impedes the ability of American businesses to grow, compete, and create jobs. Our members firmly support comprehensive reform, and we are

encouraged by the focus of this committee. We are encouraging policy leaders to come together to create simpler, more-up-to-date, and more competitive tax rules for individuals and businesses. Enacting comprehensive tax reform will result in a healthier economy and more jobs for American workers.

Once again, thank you for working with the IFA on issues facing America's small businesses. We appreciate your support of the nation's entrepreneurs and job creators and would be happy to assist you in any way we can.

Sincerely,



Robert Cresanti  
Executive Vice President of Government Relations &  
Public Policy